

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF MCI COMMUNICATIONS)	
CORPORATION, MCI FINANCIAL MANAGEMENT)	
CORPORATION, MCI CAPITAL, INC. AND)	CASE NO.
TELECOM*USA, INC. FOR AN ORDER APPROVING)	90-132
AN AGREEMENT AND PLAN OF MERGER AND TO)	
CARRY OUT CERTAIN TRANSACTIONS IN)	
CONNECTION THEREWITH)	

O R D E R

On May 15, 1990, MCI Communications Corporation, MCI Financial Management Corporation, MCI Capital, Inc. and Telecom*USA, Inc. filed an application requesting approval of an Agreement and Plan of Merger. This Order grants the approval requested.

MCI Communications Corporation, a Delaware corporation, owns directly or indirectly various subsidiaries through which it provides communication services. MCI Financial Management Corporation, a wholly owned subsidiary of MCI Communications Corporation, has a wholly owned subsidiary, MCI Capital, Inc. which was created for the purpose of acquiring Telecom*USA, Inc. Telecom*USA, Inc. is a Delaware corporation which provides domestic and international telecommunications common-carrier services throughout the Southeast, Midwest, and West.

MCI Communications Corporation owns MCI Telecommunications Corporation which was granted a Certificate of Public Convenience

and Necessity in Kentucky through Case No. 8946¹ dated November 21, 1984. Telecom*USA owns SouthernNet, Inc. which was recently granted a Certificate of Public Convenience and Necessity by Order dated March 26, 1990 in Case No. 89-134.²

Under the Agreement and Plan of Merger entered into by MCI Communications Corporation, MCI Capital, Inc., and Telecom*USA on April 8, 1990, MCI Capital, Inc. will be merged into Telecom*USA with Telecom*USA as the surviving corporation. MCI Capital, Inc. will cease to exist after the merger and the directors of MCI Capital, Inc. will become the directors of Telecom*USA after the merger. After the merger, all shares of Telecom*USA stock will be owned by MCI Financial Management Corporation. However, SouthernNet, Inc. will continue to hold its own licenses, certificates, and authorizations.

Pursuant to KRS 278.020(4), persons under the jurisdiction of the Commission must receive approval prior to the acquisition or transfer of ownership or control of a utility. The Agreement and Plan of Merger which will merge Telecom*USA, Inc. with MCI Capital, Inc. constitutes a change in ownership within the

¹ Case No. 8946, The Application of MCI Telecommunications Corporation for Special Temporary Authority, Pursuant to KRS 278.160(1) and KRS 278.190(2), to Offer Interexchange Telecommunications Services for Hire Within the Commonwealth of Kentucky, Effective On or Before January 1, 1984.

² Case No. 89-134 Application of SouthernNet, Inc. for a Certificate of Public Convenience and Necessity to Provide Long Distance Telecommunications Services, Including Operator-Assisted Services, Statewide as a WATS Reseller Within the Commonwealth of Kentucky.

meaning of KRS 278.020(4) as well as KRS 278.020(5). However, KRS 278.020(5) is inapplicable to the Agreement and Plan of Merger because of the exception contained in KRS 278.020(6). SouthernNet, Inc. derives a greater percentage of its gross revenues from its provision of interstate services than from Kentucky intrastate services. Additionally, the Agreement and Plan of Merger is subject to the approval of the Federal Communications Commission ("FCC"). It is the Commission's opinion that the FCC proceedings afford protection to Kentucky ratepayers substantially equal to that afforded such ratepayers by KRS 278.020(5). Therefore, KRS 278.020(4) governs the Agreement and Plan of Merger.

The Commission finds that approval of the Agreement and Plan of Merger may enhance SouthernNet, Inc.'s ability to compete in Kentucky intrastate telecommunications. SouthernNet, Inc. and MCI Telecommunications Corporation will continue to have the financial, technical, and managerial ability to provide reasonable service in the Commonwealth of Kentucky. They will continue to be operated separately and apart from each other and will have their own personnel, management, plant, capitalization, and books of account. Additionally, SouthernNet, Inc. will continue to provide service under the terms, rates, and conditions of its interstate tariffs and Kentucky intrastate tariffs.

The Commission finds that the proposed Agreement and Plan of Merger as described in the application is consistent with the

requirements of KRS 278.020(4) and should be approved subject to certain conditions. The Commission finds the separate operation and management of MCI Telecommunications Corporation and SouthernNet, Inc. essential for approval of this transfer. MCI Telecommunications Corporation should not use the acquisition of Telecom*USA by its parent company as a means to gain entrance into the Kentucky intraLATA market. SouthernNet, Inc. should be required to transport all calls via transmission facilities leased from certified carriers at tariffed rates available to other resellers. It should provide intraLATA services using only the transmission facilities authorized for intraLATA resale. SouthernNet, Inc. should keep records reflecting that its intraLATA traffic volumes reasonably correspond to its purchase of local exchange companies ("LEC") services and to verify that it is not using unauthorized services to originate or terminate intraLATA traffic. Finally, MCI Telecommunications Corporation and SouthernNet, Inc. shall maintain separate and distinct marketing efforts.

The Commission, having been otherwise sufficiently advised, HEREBY ORDERS that:

1. The Agreement and Plan of Merger be and it is hereby is approved subject to the following conditions for intrastate service:

- (a) SouthernNet, Inc. shall transport all calls via transmission facilities leased from certified carriers at tariffed rates available to other resellers.

(b) SouthernNet, Inc. shall provide intraLATA services using only the transmission facilities authorized for intraLATA resale.

(c) SouthernNet, Inc. shall keep records reflecting that its intraLATA traffic volumes reasonably correspond to its purchase of LEC services and verify that it is not using unauthorized services to originate or terminate intraLATA traffic.

(d) MCI Telecommunications Corporation and SouthernNet, Inc. shall maintain separate and distinct marketing efforts.

2. Within 30 days of the closing date of the planned merger, SouthernNet, Inc. shall give notice to the Commission of the closing.

3. Because SouthernNet, Inc. will continue to do business under its own name and will continue to be a wholly owned subsidiary of Telecom*USA, Inc., 807 KAR 5:011, Section 11, is not applicable and an adoption notice need not be provided.

Done at Frankfort, Kentucky, this 13th day of July, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director